

4720

~~CONFIDENTIAL~~

041 sent to  
Transmitted to  
Rep. E. Kelly

CIA HISTORICAL REVIEW PROGRAM  
RELEASE IN FULL 1998

TRENDS AND PROSPECTS IN SOVIET PETROLEUM  
EXPORTS TO THE FREE WORLD

3 August 1962

~~CONFIDENTIAL~~

GROUP 1  
Excluded from automatic  
downgrading and  
declassification

TRENDS AND PROSPECTS IN SOVIET PETROLEUM  
EXPORTS TO THE FREE WORLD

I. Trends Through 1962

USSR net exports of petroleum have increased steadily from 72,000 barrels per day (b/d) in 1955 to more than 700,000 b/d in 1961. In 1962 net exports of petroleum are expected to increase by more than 140,000 b/d and to reach a total of as much as 850,000 b/d. Table 1 provides summary data on estimated net trade of crude oil and petroleum products for the period 1955-62 and 1965.

The share of total Soviet petroleum exports going to non-bloc countries is increasing compared to the share going to bloc countries. In 1961 more than two-thirds of Soviet petroleum exports went to non-bloc countries whereas less than one-third went to other bloc countries. Moreover, as noted in Table 2, of total Sino-Soviet Bloc petroleum exports to the Free World in 1961, shipments from the USSR represented about 85 percent.

The heaviest increases in Soviet exports to the Free World have occurred as a result of sales to the Industrial West (including Japan). Table 3 gives the volume and value of Soviet trade with the Free World since 1955.

As shown in Table 4, the Soviet Union exported approximately 530,000 b/d of petroleum to thirty-four non-bloc countries in 1961. Free Europe received about 64 percent of this quantity, equivalent to about 8 percent of the domestic demand of this area. Of the remaining 36 percent, the countries of the Middle East and Africa received about 9 percent, Free Asia 11 percent, and Latin America 16 percent.

About 92 percent of the quantity shown for Latin America is accounted for by Cuba. Since late 1960, the Soviet Bloc, principally the USSR, has been supplying virtually all of Cuba's requirements.

Soviet exports to the non-bloc countries in 1961 represented about 3 percent of total non-bloc demand, or about 5 percent of the non-bloc demand outside the United States.

It is particularly important to note the figures in Table 4, above, which show Soviet oil imports as a percent of domestic demand. The range is from modest fractions in countries such as France, Germany,

Table 1

Net Trade in Crude Oil and Petroleum Products  
USSR  
1955-1962 and 1965

|           | Thousand Barrels Per Day |             |              |              |              |              |              |              |              |
|-----------|--------------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|           | <u>1955</u>              | <u>1956</u> | <u>1957</u>  | <u>1958</u>  | <u>1959</u>  | <u>1960</u>  | <u>1961</u>  | <u>1962*</u> | <u>1965*</u> |
| Crude Oil | 46.8                     | 47.7        | 91.8         | 160.3        | 228.0        | 333.2        | 436.3        | 560.5        | N.A.         |
| Products  | <u>25.5</u>              | <u>47.4</u> | <u>96.4</u>  | <u>116.6</u> | <u>190.9</u> | <u>243.2</u> | <u>271.9</u> | <u>290.6</u> | <u>N.A.</u>  |
| Total     | <u>72.3</u>              | <u>95.1</u> | <u>188.2</u> | <u>276.9</u> | <u>418.9</u> | <u>576.4</u> | <u>708.2</u> | <u>851.1</u> | <u>1,400</u> |

\* Estimated.

~~CONFIDENTIAL~~

Table 2  
Soviet Bloc Oil Exports to the Free World  
1950-61

| Thousand Barrels Per Day |                           |                     |
|--------------------------|---------------------------|---------------------|
| <u>Year</u>              | <u>Total Bloc Exports</u> | <u>USSR Exports</u> |
| 1950                     | 4.7                       | 1.4                 |
| 1951                     | 10.4                      | 2.5                 |
| 1952                     | 18.4                      | 4.4                 |
| 1953                     | 37.3                      | 10.4                |
| 1954                     | 97.7                      | 32.9                |
| 1955                     | 109.0                     | 51.0                |
| 1956                     | 130.0                     | 104.0               |
| 1957                     | 174.0                     | 127.0               |
| 1958                     | 246.2                     | 191.0               |
| 1959                     | 361.1                     | 298.0               |
| 1960                     | 485.3                     | 422.0               |
| 1961                     | 611.0                     | 530.0               |

~~CONFIDENTIAL~~

Table 3

Soviet Petroleum Exports to the Free World  
1953-62

|  |  | Quantity in Thousand b/d<br>Value in Million US Dollars |       |               |       |               |       |               |       |               |       |
|--|--|---|-------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|
|  |  | 1955  |       | 1956          |       | 1957          |       | 1958          |       | 1959          |       |
|  |  | Quan-<br>tity   | Value | Quan-<br>tity | Value | Quan-<br>tity | Value | Quan-<br>tity | Value | Quan-<br>tity | Value |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |
|  |  |   |       |               |       |               |       |               |       |               |       |

~~CONFIDENTIAL~~~~CONFIDENTIAL~~

Table 3

**Soviet Petroleum Exports to the Free World  
1955-62  
(Continued)**

|  | Quantity in Thousand b/d<br>Value in Million US Dollars |       |          |       |          |         |
|--|---|-------|----------|-------|----------|---------|
|  | 1960  |       | 1961     |       | 1962     |         |
|  | Quantity  | Value | Quantity | Value | Quantity | Value   |
| <b>Non-Block</b>                       |   |       |          |       |          |         |
| <b>Underdeveloped Countries</b>        |   |       |          |       |          |         |
| Crude Oil                              | 64.3  | 39.8  | 107.7    | 66.6  | 127.0    | 78.5    |
| Petroleum Products                     | 58.1  | 57.6  | 64.9     | 64.3  | 69.0     | 68.4    |
| Total                                  | 122.4   | 97.4  | 172.6    | 130.9 | 196.0    | 146.9   |
| <b>Industrial West</b>                 |   |       |          |       |          |         |
| Crude Oil                              | 155.5   | 85.8  | 216.6    | 119.5 | 232.5    | 139.4   |
| Petroleum Products                     | 136.2   | 106.0 | 140.5    | 109.2 | 181.0    | 140.6   |
| Total                                  | 291.7   | 191.8 | 357.1    | 228.7 | 413.5    | 280.0   |
| <b>Total Exports to the Free World</b> |   |       |          |       |          |         |
| Crude Oil                              | 219.8   | 125.6 | 324.3    | 186.1 | 379.5    | 217.9   |
| Petroleum Products                     | 194.3   | 163.6 | 205.4    | 173.5 | 250.0    | 209.0   |
| Total*                                 | 414.1   | 289.2 | 529.7    | 359.6 | 629.5    | 426.9   |
|  |   |       |          |       |          | **900.0 |

CONFIDENTIAL

CONFIDENTIAL

Footnotes to Table 3

\* The value figures for the years 1955 through 1960 do not agree exactly with the values shown in Table 5. This reflects some minor differences in the handling of quantity and value figures appearing in official Soviet trade reporting.

\*\* This figure is not intended as an estimate of oil exports in 1965, but represents only the amount of oil which is expected to be available for export to the Free World after domestic requirements have been satisfied.

Table 4

Soviet Petroleum Exports to Non-Bloc Countries  
1961

| <u>Country of Destination</u>       | <u>Thousand Barrels<br/>Per Day</u> | <u>Percent of<br/>Domestic Demand</u> |
|-------------------------------------|-------------------------------------|---------------------------------------|
| Belgium/Luxembourg                  | 6.8                                 | 4                                     |
| France                              | 12.0                                | 2                                     |
| Germany                             | 38.5                                | 4                                     |
| Greece                              | 18.1                                | 37                                    |
| Italy                               | 126.8                               | 22                                    |
| Netherlands                         | 1.0                                 | Negl.                                 |
| UK                                  | 8.3                                 | Negl.                                 |
| Denmark                             | 4.1                                 | 4                                     |
| Iceland                             | 6.6                                 | 92                                    |
| Portugal                            | .2                                  | 1                                     |
| Norway                              | 3.8                                 | 4                                     |
| Turkey                              | .7                                  | 2                                     |
| Switzerland                         | 1.0                                 | 1                                     |
| Austria                             | 14.8                                | 34                                    |
| Sweden                              | 47.8                                | 18                                    |
| Finland                             | 42.0                                | 88                                    |
| Yugoslavia (Trieste)                | 1.6                                 | 4                                     |
| Other*                              | 10.2                                | N.A.                                  |
| <b>Total Free Europe</b>            | <b><u>336.7</u></b>                 | <b><u>8</u></b>                       |
| Algeria                             | .9                                  | 2                                     |
| Guinea/Mali                         | 1.8                                 | N.A.                                  |
| Morocco                             | 2.4                                 | 12                                    |
| Tunisia                             | 1.2                                 | 12                                    |
| Egypt                               | 37.6                                | 38                                    |
| Syria                               | 3.6                                 | 16                                    |
| Yemen                               | 0.08                                | 14                                    |
| <b>Total Middle East and Africa</b> | <b><u>47.7</u></b>                  | <b><u>N.A.</u></b>                    |



~~CONFIDENTIAL~~

Table 4  
Soviet Petroleum Exports to Non-Bloc Countries  
1961  
(Continued)

| <u>Country of Destination</u> | <u>Thousand Barrels<br/>Per Day</u> | <u>Percent of<br/>Domestic Demand</u> |
|-------------------------------|-------------------------------------|---------------------------------------|
| Afghanistan                   | 1.0                                 | 77                                    |
| India                         | 3.5                                 | 2                                     |
| Japan                         | 52.6                                | 7                                     |
| Russia                        | .4                                  | 3                                     |
| Total Free Asia               | <u>58.5</u>                         | <u>N.A.</u>                           |
| Argentina                     | .3                                  | Negl.                                 |
| Brazil                        | 7.5                                 | Negl.                                 |
| Cuba                          | 78.4                                | 99                                    |
| Uruguay                       | .4                                  | 2                                     |
| Total Latin America           | <u>86.8</u>                         | <u>N.A.</u>                           |
| Grand Total                   | <u><u>529.8</u></u>                 | <u><u>3</u></u>                       |

\* The ultimate destination has been obscured due to transshipment or placement in bonded storage.

and the UK to apparent critical dependence in nations such as Iceland, Finland, and Afghanistan. As a result of the Soviet push for sales in 1961, both Burma and Spain imported Soviet oil for the first time; and in 1962 Ceylon and Cyprus are scheduled to receive their first Soviet oil.

## II. Importance of Oil in Soviet Foreign Trade

With the nearly threefold increase in the value of total Soviet petroleum exports in the second half of the 1950's -- to \$657 million in 1960 -- its importance in trade has steadily risen.\* As a share of commodity exports, however, the weight of petroleum has been consistently higher since the mid-1950's in Soviet trade with the West (nearly 20 percent in 1960) than in Soviet trade with the Bloc (9 percent in 1960). (See Table 5.) Petroleum now ranks as the single most important commodity in Soviet exports to the Industrial West. Even in Soviet trade with the underdeveloped countries of the Free World, petroleum now accounts for about one-fifth of all Soviet exports and is second only to machinery and equipment in export ranking. Given the Soviet production potential and growing international markets, there is reason to expect that petroleum will remain a major commodity in Soviet exports to the Free World for the foreseeable future.

## III. Motivation for Soviet Oil Sales

Most simply stated, the USSR is engaged in a campaign to increase its oil sales to the industrialized nations of the Free World in order to acquire foreign exchange to purchase from them greatly increased quantities of machinery and equipment. Soviet imports from the Industrial West increased from almost \$893 million in 1955 to just over \$1.1 billion in 1961. Petroleum has two fundamental attractions to Soviet planners as a major export commodity -- it is a relatively low cost industrialized raw material and the petroleum markets of Western Europe are growing rapidly.

---

\* In general, Soviet commodity trade statistics may be freely used in making international comparisons in the field of foreign trade. In principle, Soviet foreign trade prices are based on world market prices in terms of dollars, and converting the foreign trade prices or values in rubles at the official exchange rate will yield dollar values or prices which, as a general rule, will be in line with actual transaction prices or values in terms of dollars.

Table 5

Growth and Distribution of Soviet Exports  
of Petroleum and Petroleum Products  
1950, and 1955-60

|   | In Million US\$ |              |              |              |               |               |               |
|---|-----------------|--------------|--------------|--------------|---------------|---------------|---------------|
|   | 1950            | 1955         | 1956         | 1957         | 1958          | 1959          | 1960          |
| Total Petroleum Exports                                       |                 |              |              |              |               |               |               |
| Petroleum Percent of Total Exports                            | N.A.            | 232.2<br>6.7 | 289.3<br>8.0 | 402.6<br>9.2 | 435.1<br>10.1 | 570.8<br>10.5 | 657.3<br>11.8 |
| Petroleum Exports to Bloc                                     | N.A.            | 145.9        | 173.3        | 241.4        | 252.6         | 322.4         | 368.2         |
| Petroleum as Percent of Total Exports to Bloc                 |                 | 5.4          | 6.5          | 7.5          | 8.2           | 7.9           | 9.0           |
| Petroleum Exports to Free World                               | 4.4             | 86.3         | 116.0        | 161.2        | 182.5         | 248.4         | 289.1         |
| Petroleum as Percent of Total Commodity Exports to Free World |                 | 11.3         | 12.2         | 14.0         | 15.1          | 18.2          | 19.6          |

1. Free World Exports of Petroleum and Petroleum Products from the USSR.

~~CONFIDENTIAL~~

Sales of gold also earn important foreign exchange to offset increased imports. Since 1956 Soviet gold sales to the West have averaged some US \$200 million annually. It is unlikely that the Soviets would be willing to increase significantly their sales of gold except under emergency conditions. By 1961, gold sales to the Free World were approximately US \$250 million and petroleum sales increased to US \$350 million; and the latter seems destined to exceed the former in importance on a rather permanent basis.

#### IV. Oil Pricing Policies of the USSR

Prices for Soviet petroleum are generally lower than the prices prevailing in the international market. There are indications, however, that after the USSR gains a foothold in an area, it begins to raise prices to correspond more closely to existing market prices.

Based on official Soviet trade statistics it appears that the European Satellites pay considerably more for Soviet oil than do Free World countries. Because of this price differential it has been charged that the Soviet Union has a captive market and extracts higher oil prices through superior bargaining strength. On the other hand, there is also evidence that the Satellites charge the USSR higher prices for commodities than could be obtained in the Free World. Although the evidence is inconclusive, it appears that the USSR and the Satellites practice artificial pricing policies.

Charges of dumping -- selling below production cost -- are almost impossible to prove against the USSR. Soviet published costs of producing oil are not wholly realistic. The USSR excludes expenses of geologic prospecting and a good portion of the expenses of exploratory drilling from the cost of producing oil.

In those instances where the sales of a single commodity or relatively few such commodities to the USSR by a less developed nation may represent a significant portion of the latter's export market, the USSR could, by threatening to discontinue the trade, attempt to exert undue pressure to the advantage of local Communist parties or to the USSR itself.

#### V. Effects of Soviet Oil Sales on Free World Producing States

Production of oil in the US is unaffected by Soviet oil sales. The US will continue to be a net importer of oil for the foreseeable future. The principal oil producing countries in the Free World, outside the US,

~~CONFIDENTIAL~~

have organized a supranational protective society -- The Organization of Petroleum Exporting Countries (OPEC). The eight members of OPEC would be most affected by Soviet oil sales. The OPEC countries accounted for almost 50 percent of the Free World oil production in 1961 and together with the US accounted for almost 85 percent of such production. The following tabulation shows the growth in production in the eight OPEC countries, the US and other Free World countries from 1955 to 1961 when the increase in Soviet oil sales was so pronounced.

| <u>Thousand Barrels Per Day</u> |               |               |
|---------------------------------|---------------|---------------|
| <u>Area</u>                     | <u>1955</u>   | <u>1961</u>   |
| Kuwait                          | 1,092         | 1,644         |
| Saudi Arabia                    | 965           | 1,393         |
| Iran                            | 329           | 1,178         |
| Iraq                            | 688           | 1,001         |
| Qatar                           | 115           | 179           |
| Libya                           | 0             | Negl.         |
| Venezuela                       | 2,158         | 2,914         |
| Indonesia                       | 248           | 438           |
| Total OPEC                      | <u>5,595</u>  | <u>8,747</u>  |
| US                              | 6,807         | 7,189         |
| Other Free World                | 1,310         | 2,776         |
| Total Free World                | <u>13,712</u> | <u>18,712</u> |
| USSR                            | <u>1,416</u>  | <u>3,322</u>  |

Those who express alarm about the Soviet oil offensive properly point out the dangers that exist where such sales dominate the markets as in certain Free World countries -- Iceland, Finland, Afghanistan, Greece, and Egypt. The USSR, on the other hand, argues that its sales represent a negligible share of total world trade in petroleum and thus could not be responsible for any disturbance in world oil markets. The reaction of the OPEC countries to these arguments is, as yet, unclear although it is likely that they would subscribe to the Soviet argument in their negotiations with Free World oil companies.

Because Free World oil companies normally have supplied oil to less developed countries on a cash basis, the Soviet sales, based on an exchange of goods, have been considered by most Western observers to be solely political in nature. While the USSR probably is motivated basically by political aims, these sales are not completely devoid of economic considerations. Most oil transactions with the less developed countries have involved both political and economic considerations.

#### VI. Prospects for the Future

Probable future above-plan growth in the production of crude oil should provide for continued increases in the export of petroleum from the USSR. In this respect it is estimated that exports of petroleum from the USSR to the Free World in 1962 may reach as much as 640,000 b/d, an increase of more than 20 percent compared with 1961. It is estimated that actual production in 1965 may reach 5,300,000 b/d, compared to a planned level of only 4,800,000 b/d. If this higher level of production is achieved, as much as 1,000,000 b/d of petroleum may be available for export that year.

Such a level of exports will represent about four percent of estimated total Free World demand in 1965 or about 8 percent of the Free World demand outside the United States. The OPEC countries will still supply about 50 percent of total world production and will have increased their annual output by about 20 percent over production in 1961.